

Master Settlement Agreement

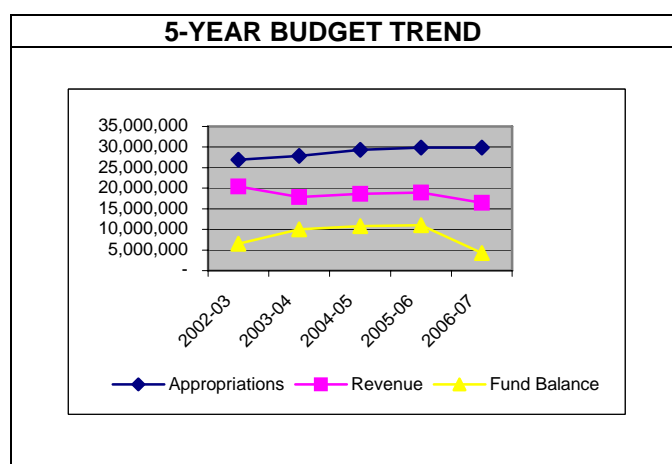
DESCRIPTION OF MAJOR SERVICES

This budget unit accounts for proceeds received from the tobacco lawsuit Master Settlement Agreement (MSA). In late 1998 a settlement was reached in a lawsuit filed by states against the tobacco industry. In California, the proceeds of the settlement are to be divided equally between the state and local governments who partnered in the lawsuit. Payments to local governments are based on a formula involving total tobacco sales and each local entity's population.

A majority of the county's total proceeds are used each year to finance a portion of the Arrowhead Regional Medical Center debt.

There is no staffing associated with this budget unit.

BUDGET HISTORY

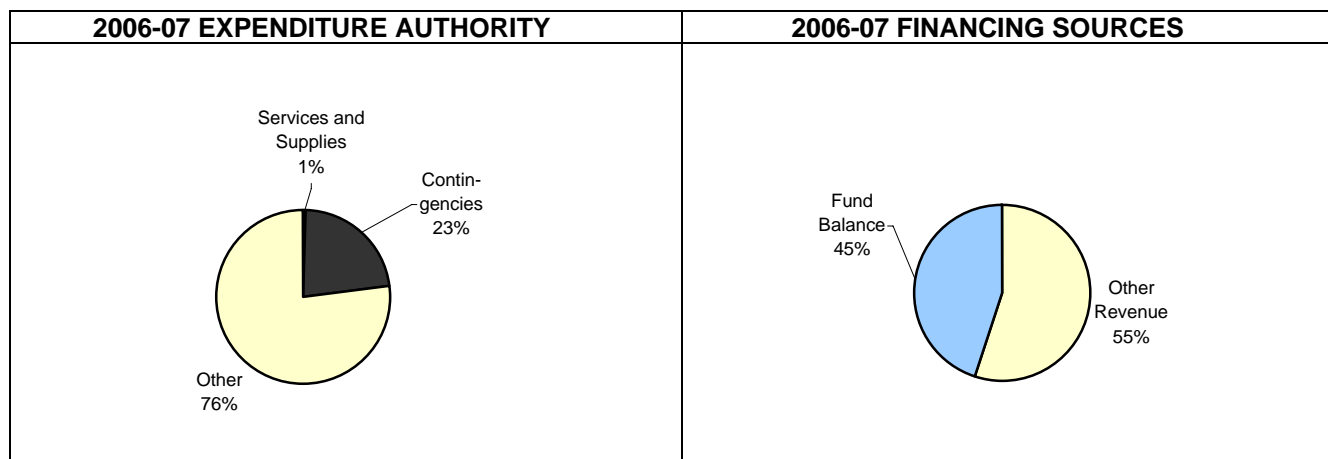


PERFORMANCE HISTORY

	2002-03 Actual	2003-04 Actual	2004-05 Actual	2005-06 Modified Budget	2005-06 Actual
Appropriation	18,386,633	-	18,633,000	29,894,255	15,000,000
Departmental Revenue	21,931,131	18,473,314	18,757,407	18,904,942	17,438,142
Fund Balance				10,989,313	

Actual expenditures are less than budget as no money was expended for service and supplies, other charges, or contingencies in 2005-06. In addition, Operating Transfers Out were \$3.9 million less than budgeted due to a decrease in the transfer for financing of varied health related programs. Estimated revenue is less than modified budget due to less than budgeted state aid being received. The decrease in state aid was offset slightly by higher than budgeted interest income.

ANALYSIS OF FINAL BUDGET



GROUP: Administrative/Executive
DEPARTMENT: Master Settlement Agreement
FUND: Tobacco Settlement Agreement

BUDGET UNIT: RSM MSA
FUNCTION: Health and Sanitation
ACTIVITY: Hospital Care

	2002-03 Actual	2003-04 Actual	2004-05 Actual	2005-06 Actual	2005-06 Final Budget	2006-07 Final Budget	Change From 2005-06 Final Budget
Appropriation							
Services and Supplies	686,633	-	-	-	9,093,561	170,730	(8,922,831)
Other Charges	-	-	-	-	-	4,000,000	4,000,000
Contingencies	-	-	-	-	1,867,694	6,747,313	4,879,619
Total Appropriation	686,633	-	-	-	10,961,255	10,918,043	(43,212)
Operating Transfers Out	17,700,000	-	18,633,000	15,000,000	18,933,000	18,933,000	-
Total Requirements	18,386,633	-	18,633,000	15,000,000	29,894,255	29,851,043	(43,212)
Departmental Revenue							
Use of Money and Prop	349,405	269,155	280,108	479,359	228,000	250,000	22,000
Other Revenue	21,581,726	18,204,159	18,477,299	16,958,783	18,676,942	16,173,588	(2,503,354)
Total Revenue	21,931,131	18,473,314	18,757,407	17,438,142	18,904,942	16,423,588	(2,481,354)
Fund Balance					10,989,313	13,427,455	2,438,142

Service and Supplies are decreased due to the anticipated decrease in revenue. Other revenue is decreased to reflect an anticipated decrease in revenue received from the major tobacco companies to the Master Settlement Agreement fund.

Many major tobacco companies are disputing their obligation to pay current settlement amounts, citing an "adjustment" provision in the settlement that allows them to cut their payments if their collective market share drops below certain thresholds. The major companies are arguing that their smaller rivals are not subject to marketing limits and costs associated with the settlement and can therefore sell their products at lower prices. The major companies are also asserting that states did not try hard enough to level the playing field between the larger and smaller companies. The states maintain that market share is dropping due to a growing preference for generic brand tobacco products and are assuring major tobacco companies that they have taken steps to provide parity. At this time, the major tobacco companies are withholding a portion of settlement monies and the state attorney general has filed suit against them. Consequently, revenue in this budget unit is reduced to reflect the county's share if all settlement monies are not received.

FINAL BUDGET CHANGES

On November 1, 2005, the Board of Supervisors approved a \$4.0 million transfer to Chaffey College from this fund for enhancement of Chaffey's nursing program. Other charges were increased to reflect the transfer of funds to Chaffey, which will occur in 2006-07. Contingencies were increased by \$5,129,954 due to fund balance being higher than anticipated.

